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**Working Paper**

## A research report on Zimbabwe

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**AERC Scoping Studies on  
China-Africa Relations:  
A Research Report on Zimbabwe**

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## 1. Introduction

Rhodesia's struggle for independence began in 1964 and ended with the Lancaster House Agreement in 1979 that paved the way for democratic elections in early 1980 and the birth of Zimbabwe. Ethnic rivalry has long been prominent in the country's politics and played an important role during the struggle for independence. The Soviet Union provided support in the form of weapons and military training to the Zimbabwe African People's Union (ZAPU), led by Joshua Nkomo. The Zimbabwe African National Union (ZANU) under Robert Mugabe was predominantly Shona and made several attempts to solicit support from Moscow in 1978 and 1979. These approaches were rebuffed and ZANU then turned to the People's Republic of China (PRC). Mugabe first met with Chinese officials in Mozambique in January 1979<sup>1</sup>.

When elections were held in February 1980, ZANU won by a landslide and China established diplomatic relations with the Republic of Zimbabwe on the Independence Day of Zimbabwe - 18<sup>th</sup> April 1980. Zimbabwe experienced a low-intensity civil war for the following eight years until ZAPU merged with ZANU to form the ZANU-Patriotic Front (PF) and Joshua Nkomo was appointed Vice-President. Mugabe was extremely popular in the West and wholeheartedly implemented World Bank and IMF structural adjustment programmes between 1991 and 1996. These programmes were poorly conceived and quickly led to increased unemployment and broad social unrest<sup>2</sup>.

Zimbabwe's military intervention in Mozambique 1982-1992<sup>3</sup>, and then into the Democratic Republic of Congo (DRC) at the request of President Laurent Kabila to put down a rebellion supported by Burundi, Rwanda and Uganda placed an enormous strain on Zimbabwe's resources and proved immensely unpopular in the West<sup>4</sup>. With the economy failing Mugabe found himself under intense pressure both at home and abroad. When the issue of land redistribution, which his party had promised to solve, re-emerged Mugabe implemented an extremely controversial programme of compulsory land redistribution in 2000 which saw land taken from white farmers and given to blacks. There are widely held perceptions that this was a desperate effort to garner support. Whatever the motivation, Zimbabwe has since experienced a steady regression away from democratic governance toward social and political upheaval and a steep economic downturn.

Rich in mineral resources, and once an export-orientated country with a strong manufacturing base, the country's economic landscape has been troubled by contracting national output, low levels of capacity utilisation, persistent hyperinflation estimated at 8000-12 000% y/y in October 2007, unemployment near 80% and acute shortages of foreign exchange reserves, consumer goods, petrol and production inputs. Foreign debt levels have skyrocketed to more than US\$ 4.5 billion.

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<sup>1</sup> Joshua Eisenman. "Zimbabwe: China's African Ally." Jamestown Foundation. China Brief. Volume V. Issue 15. July 5, 2005.

<sup>2</sup> Paul Collier and Jan Willem Gunning, *The IMF's Role in Structural Adjustment*, WPS/99-18, World Bank, Washington DC; Centre for the Study of African Economies, Oxford, June 1999, pp. 6-7; The World Bank, Operations Evaluation Department, Project performance Assessment Report, Zimbabwe, Second Structural Adjustment Program, Report No.: 25479, Credit 2527-ZIM, February 24, 2003.

<sup>3</sup> Norman Mlambo, Raids on Gorongossa, Zimbabwe's Military Involvement in Mozambique 1982-1992, The Southern African Centre for Defence Information (SACDI), Defence Digest, Working Paper No.3, (<http://ccrweb.ccr.uct.ac.za/archive/defencedigest/defdigest03.html#Biblio>).

<sup>4</sup> Martin R. Rupiya, "A Political and Military Review of Zimbabwe's Involvement in the Second Congo War," John F. Clark, *The African Stakes of the Congo War*, Kampala: Fountain Publishers, 2003, pp. 93-105.



In February 2002 the European Union imposed sanctions on Zimbabwe in response to a Council assessment that the Government of Zimbabwe violated human rights, freedom of opinion, freedom of association and freedom of peaceful assembly. The US Government implemented a similar embargo in April 2002 with the implementation of federal regulation 67 FR 18978<sup>5</sup>. These sanctions have been upheld until now and have had a severe impact on Zimbabwe's economy and situation of the country's poor and vulnerable.

In light of the above this paper seeks to explore Zimbabwe's growing relationship with China. This will be done by giving a brief overview of the deepening political relations. The paper will then analyse economic and commercial ties between the two nations and the impacts thereof by focusing on China's aid profile, investment footprint and trading relation with the land-locked southern African country.

## **2. A review of Cooperation Arrangements between China and Zimbabwe**

Declining FDI inflows in light of isolation from traditional investors and decreasing donor assistance naturally led to Harare's quest for alternative partners. This accelerated its engagement with emerging economies, including Iran, Libya, India as well as the People's Republic of China.

Mugabe announced in 2006 that Zimbabwe is "returning to the days when our greatest friends were the Chinese" and declared: "We look again to the East where the sun rises and no longer to the West where it sets"<sup>6</sup>. ZANU-PF and the Chinese Communist Party (CCP) enjoy close ties that were established prior to 1980 and are routinely referenced in announcements by both governments<sup>7</sup>. As the *People's Daily* reported, "Relations between China and Zimbabwe started in the days of the liberation struggle in the African country when China aided the liberation fighters in various ways"<sup>8</sup>.

At a ceremony celebrating the 25<sup>th</sup> anniversary of relations between the two countries Chinese Ambassador Chang Xianyi reiterated Beijing's "profound fraternal relationship" with Harare and described relations as "an all-weather friendship". At the same event Zimbabwe's acting foreign minister Herbert Murerwa recognised that China was now Harare's single largest investor and called for increased efforts to develop Zimbabwe's extensive natural resources<sup>9</sup>.

When welcoming the Chinese Assistant Minister of Construction Liu Zhifeng in March 2007, Mugabe paid tribute to China for its unwavering support to Zimbabwe from the days of the liberation struggle: "To us in those days (of the liberation struggle) it was difficult to get friends just as it is difficult now, being faced by a struggle against great powers, to get friends who can support us. But you gave us all the means with which we prosecuted our struggle and I say a good friend is one who stands by you when you are in trouble"<sup>10</sup>.

<sup>5</sup> Federal Register Notices, Vol. 67, No. 74, 17 April 2002 (<http://pmdtdc.state.gov/docs/frnotices/67FR18978.pdf>).

<sup>6</sup> Brian Smith, Western concern at China's growing involvement in Africa, World Socialist Web Site, 10 April 2006, (<http://www.wsws.org/articles/2006/apr2006/afri-a10.shtml>).

<sup>7</sup> Joshua Eisenman, 2005. "Zimbabwe: China's African Ally." Jamestown Foundation. China Brief. Volume V. Issue 15. July 5

<sup>8</sup> Joshua Eisenman, 2005. "Zimbabwe: China's African Ally." Jamestown Foundation. China Brief. Volume V. Issue 15. July 5

<sup>9</sup> Joshua Eisenman, 2005. "Zimbabwe: China's African Ally." Jamestown Foundation. China Brief. Volume V. Issue 15. July 5

<sup>10</sup> Mugabe hails China for helping Zimbabwe develop infrastructure, Xinhua, 23 March 2007 ([http://english.peopledaily.com.cn/200703/23/eng20070323\\_360237.html](http://english.peopledaily.com.cn/200703/23/eng20070323_360237.html)).



Since the establishment of relations between the two countries there has been a steady exchange of visits at all levels. During the recent visit by a Chinese official delegation led by Deputy Head of the Organisation Department of the Central Committee of the Communist Party of China, Wang Dongming, Mugabe described China as Zimbabwe's top priority cooperation partner. An overview of recent bilateral agreements between Harare and Beijing is presented in Table 1. While several of these will be explored in more detail through the body of the paper, the majority were signed during the exchange of high level visits between the two countries. The agreements appear to fit in line with cooperation arrangements that China has established with other African states across the continent and presumably result from *ad hoc* initiatives generated by both sides and aimed at building private sector capacity.

**Table 1: Recent Bilateral Agreements**

Year	Type of Agreement	Specifics	Value
December 2002	Economic & Technical Cooperation	Grant to secure irrigation equipment for agricultural purposes	US\$ 5 million
July 2003	Technological Cooperation	Grant to assist developmental programs in economic and technical areas	US\$ 4.5 million
February 2004	Economic & Technical Cooperation		
June 2004	Tourism agreement	Granting of approved tourism destination status	
November 2004	Six agreements and contracts including an economic and technical cooperation agreement; Exploration rights on minerals; JV with China North Industries Cooperation		
June 2005	Agreement signed	Rehabilitation of the National power grid in return for chrome resources	US\$ 1.3 billion
July 2005	Agreement on Economic & Technical Cooperation	China National Aero-Technology Import & Export Corporation with Zimbabwean Ministry of Communication	Export of another MA60 on top of two delivered in May 2005
July 2005	Memorandum of Understanding for Loan financing	Expansion of Zimbabwe's Hwange Power Station AND Agreement on Aircraft Spares Bonded Warehouse	
2005	Grant	39 military trucks and education and medical equipment	US\$ 3 million
May 2006	Grant	Military machines and construction equipment to Zimbabwean Defense Forces	US\$ 1.5 million
2006	Technical Cooperation	Training of 55 military officers between 2006 and 2007	
August 2006	Education Agreement	Agreement to establish a Confucius Institute at the University of Zimbabwe to promote the Chinese language and culture	
April 2007	Four bilateral cooperation documents including one economic & technical cooperation agreement	Includes a credit facility to be paid off in tobacco over 2 years	US\$ 58 million

*Source: Various public media reports*

In the absence of alternative support, ZANU-PF clearly relies very heavily on Beijing's assistance. During the 2005 elections, China printed T-shirts for Robert Mugabe's youth militia and reportedly provided Harare with a military-strength radio jamming device which the government used to block

broadcasts of anti-government reports from independent media outlets during the 2005 parliamentary election campaign<sup>11</sup>. Beijing also reportedly provided Harare with riot control gear<sup>12</sup>.

## 2.1 Military Relations

China's military ties with Zimbabwe are among the closest of any country on the African continent. A large number of Zimbabwe's senior officials and military commanders, including the legendary guerilla war hero General Josiah Magama Tongogara, received training in China<sup>13</sup>. The military continues to play a prominent role in Zimbabwe's politics and the high level of cooperation and exchange between the militaries of the two countries has been an important element in their strong relations. China has become an increasingly vital source of military equipment since the implementation of Western military embargoes.

In June 2004 it was widely rumored that Zimbabwe was planning to buy Chinese-made jet aircrafts valued at US\$ 240 million to replace the country's Chinese made Chengdu F-7s. However, during a press conference at the time China's Ambassador to South Africa described the reports as "not true and [...] baseless"<sup>14</sup>. The order was reported to have circumvented the state procurement board that had been tasked with appropriating Zimbabwe's US\$ 136 million defense budget<sup>15</sup>.

While the precise details of the acquisition are difficult to ascertain, Permanent Secretary of the Zimbabwean Ministry of Defence Trust Maphosa accompanied by army commander General Constantine Chiwenga and Airforce of Zimbabwe Chief Air Marshall Perence Shiri, stated during a hearing of the joint Senate and House of Assembly Parliamentary portfolio committee on defence and home affairs that six K-8 training jets had already arrived in the country by March 2006 and that the remainder were to be delivered by the end of the year<sup>16</sup>.

Though details were not disclosed, the military officials declared that a payment of US\$ 4.6 million had been made to the Chinese manufacturers of the aircraft<sup>17</sup>. The price of each jet is estimated to be between US\$10 and 20 million depending on the precise specifications<sup>18</sup>. The spares and maintenance arrangements supplied with such aircraft can also have a substantial impact on price. Manufactured by China's Nanchang Aircraft Manufacturing Company (NAMC), the K-8 was jointly

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<sup>11</sup> Laurence Caromba, "China & Africa: The Folly of Sinophobia," Electronic Briefing Paper, Centre for International Political Studies (CiPS), University of Pretoria, No. 50/2007; Abraham McLaughlin, "A Rising China Counters U.S. Clout in Africa," The Christian Science Monitor, March 30, 2005, at <http://www.csmonitor.com/2005/0330/p01s01-woaf.html> (August 22, 2005) in Peter Brookes and Ji Hye Shin, China's Influence in Africa: Implications for the United States, *Backgrounders #1916*, The Heritage Foundation, 22 February 2006.

<sup>12</sup> Joshua Eisenman and Joshua Kurlantzick, China's Africa Strategy, Current History, May 2006, p. 223.

<sup>13</sup> Xinhua, Zimbabwe- Friendship Association Launched, 19 July 2007, AllAfrica Global Media (<http://english.people.com.cn/90001/90776/6218578.html>) posted 19 July 2007.

<sup>14</sup> China denies reports of fighter jet sales to Zimbabwe, 22 June 2004 ([http://english.peopledaily.com.cn/200406/22/eng20040622\\_147120.html](http://english.peopledaily.com.cn/200406/22/eng20040622_147120.html)).

<sup>15</sup> "Cash-Hungry Zimbabwe Splashes Out on Fighter Jets," *Business Day* (Zambia), 10 June 2004, <http://www.bday.co.za/bday/content/direct/1,3523,1635614-6078-0,00.html>; Joshua Eisenman and Joshua Kurlantzick, China's Africa Strategy, Current History, May 2006, p. 222.

<sup>16</sup> Lebo Nkatozo, Zimbabwe splashes on new Chinese K-8 jets, 11 March 2006 (<http://www.newzimbabwe.com/pages/army14.14602.html>).

<sup>17</sup> Lebo Nkatozo, Zimbabwe splashes on new Chinese K-8 jets, 11 March 2006 (<http://www.newzimbabwe.com/pages/army14.14602.html>).

<sup>18</sup> Violet Gonda, Cash strapped Mugabe buys jets, Zimbabwe Watch, (<http://thezimbabwean.co.uk/22-april-2005/fighter-jets.html>).

designed by the Pakistan Aeronautical Complex (PAC) and NAMC. It is primarily a training aircraft but has reconnaissance capabilities and can be fitted out as a light attack platform<sup>19</sup>.

Despite the large number of criticisms leveled at Mugabe from the West, none have involved accusations of terrorist activity. Zimbabwe does not pose a threat from a traditional security perspective; yet, China's support of the regime through military cooperation has raised eyebrows.

### 3. Zimbabwe as a recipient of Chinese aid

Plagued with contracting GDP, a lack of foreign exchange reserves and a general shortage of consumer goods Zimbabwe relies heavily on international donors and a range of humanitarian and relief institutions for financial assistance. Remittances from Zimbabweans living abroad are also a main source of income for those left behind. More than three million Zimbabweans have reportedly fled into neighbouring countries<sup>20</sup>.

Chinese support to the contentious regime has increased over the last few years, assisting in sectors such as agriculture, mining, energy but also support infrastructure and social development projects. This is done through grants, export credits and concessional loans, as well as through technical and economic assistance. The Chinese Government's total aid around the world has been estimated to total approximately US\$ 2 billion<sup>21</sup>. However, statistics on China's development assistance to Zimbabwe do not exist and are believed to be relatively small.

#### 3.1 Grants

*Grants*, defined as financial facilities that are non-repayable, are based on Economic and Technical Cooperation between the governments of Zimbabwe and China (see Table 1). Extended usually in kind rather than cash, grants have included food aid, agricultural equipment and equipment for rural development projects. An overview of such assistance is provided in Table 2.

**Table 2: Chinese grants to Zimbabwe**

Year	Value (US\$)	Purpose
1992	0.6 million	Donated maize to the Government of Zimbabwe during the 1992 drought
1995	0.24 million	Drilling of 22 boreholes in Masvingo
1996	1.25 million	
	0.54 million	Purchase of tractors
	0.24 million	Utilised to finance Chinese coaches to Zimbabwe for the various sporting disciplines and the provision of sports equipment from China.
	0.42 million	Development of infrastructure at Valley dam
1998	0.6 million	Purchase of office equipment
1999	0.24 million	Purchase of office equipment
1999	0.24 million	Purchase of agro-equipment
1999	0.3 million	Solar project
1999	1.2 million	
	0.5 million	Utilised for food assistance
	0.07 million	Maintenance of the Zimbabwe National Sports Stadium
	0.08 million	Mining Survey of mineral resources in Zimbabwe

<sup>19</sup> Lebo Nkato, Zimbabwe splashes on new Chinese K-8 jets, 11 March 2006 (<http://www.newzimbabwe.com/pages/army14.14602.html>).

<sup>20</sup> UNHCR anticipates Zimbabwe refugee crisis, 20 August 2007, Australian Broadcasting Commission (<http://www.abc.net.au/news/stories/2007/08/20/2009116.htm>).

<sup>21</sup> Carol Lancaster, The Chinese Aid System, Center for Global Development, June, 2007, p. 2.



	0.55 million	Transport and communication
<b>2001</b>	<b>0.12 million</b>	Purchase of office equipment
<b>2002</b>	<b>4.8 million</b>	Purchase of irrigation equipment
	1 million	Procurement of agricultural inputs and animal vaccines
	3.8 million	Transport
<b>2002</b>	<b>3.6 million</b>	Refurbishment and maintenance of the Zimbabwe National Sports Stadium
<b>2004</b>	<b>1.8 million</b>	Transport
<b>2004</b>	<b>3 million</b>	Purchase of aircraft from China as agreed
<b>2005</b>	<b>6 million</b>	Purchase of maize
<b>2006</b>	<b>1.5 million</b>	Funds are earmarked for the purchase of agricultural inputs

Source: Ministry of Finance, Zimbabwe<sup>22</sup>

Humanitarian assistance from China has corresponded with emergency situations in Zimbabwe. For example, in 1992 the Chinese government donated maize worth US\$ 0.6 million during the drought that year. Similarly, food assistance was granted in 1999 and 2005.

Donations in kind have also been made for rural development projects. In 1999 the Chinese Government donated 180 solar water heaters to the Zimbabwe Republic Police as part of a project to introduce China's experience and technology in solar energy development to the solar energy-rich southern African country. The project also aims to evaluate the performance of the Chinese-made solar heaters under local conditions, train local technicians in installation and maintenance, to demonstrate the green energy technology and to promote commercial and industrial cooperation<sup>23</sup>.

For the refurbishment and maintenance of the Harare National Sports Stadium, financed by the Chinese government, China granted US\$ 0.07 million in 1999 and a further US\$ 3.6 million in 2002<sup>24</sup>. Other grants awarded were used for the purchase of office equipment for various Government Ministries in Zimbabwe, as well as agricultural and irrigation equipment, which are necessary inputs into the underperforming agricultural sector.

China and Zimbabwe have also signed a cultural agreement and a protocol on higher education cooperation with eleven Zimbabwean students now studying in China. A steady stream of Chinese teachers has been dispatched to Zimbabwe and funds have been provided to establish a Confucius Institute focusing on Chinese language training at the University of Zimbabwe in Harare. Zimbabwe has also been a recipient of doctors and medical teams from China.

**Table 3: Chinese projects in Zimbabwe**

Sector	Projects	Repayment option	Status
<b>Agriculture</b>	US\$ 58 million facility for provision of agricultural equipment (tractors, combine harvesters, disc ploughs, hurrows, etc). Business to business agreement signed between Farmers world and a Chinese company though guaranteed by the Reserve Bank of Zimbabwe	Tobacco exports to China	Equipment has since been delivered

<sup>22</sup>Taken from AFRODAD, 2007, "A Critical Assessment of Chinese Development Assistance in Zimbabwe"

<sup>23</sup> China Donates 180 Solar Water Heaters to Zimbabwe, Xinhua News Agency, 25 August, 2006 (<http://www.china.org.cn/english/international/179082.htm>).

<sup>24</sup> The stadium seats 60,000 people and covers an area of 17 hectares. It was initially built and financed by the Chinese government in 1987.

<b>Agricultural Technological Transfer</b>	Setting up an Agricultural Demonstration Centre just outside Harare	Improved exports to China	Project commissioned in late May 2007
<b>Agriculture</b>	Supply of fertilizer (200,000-400,000 tons). Business to Business agreement signed between ZFC and a Chinese company though with a Government guarantee	Improved exports to China	Consignment delivered though part of it was condemned as unfit for Zimbabwean soils
<b>Mining &amp; Electricity</b>	Construction of 3 thermal power stations at Hwange Colliery company	Loan	Project commissioned
<b>Mining</b>	Revival of Mhangura Copper mine. Business to Business agreement between Zimbabwe Mining Development Corporation (ZMDC) and Chinese Aero-technology Import and Export Company (CATIC)		Project still on paper
<b>Railways</b>	Supply of rail equipment	Loan	Project commissioned
<b>Communication</b>	Supply of telephone equipment to Tel-One( Business to business agreement)	Loan	Equipment delivered
<b>Transport</b>	Supply of FAW buses to ZUPCO (business to business agreement with Reserve Bank guarantee)		The buses were delivered but the majority of which have since are no longer operating due to technical faults.
<b>Military</b>	Training and military advice at the army staff college	Aid	Ongoing
<b>Military</b>	Supply of military hardware including fighter jets	Loan	Ongoing
<b>Energy</b>	Construction of thermal power station in Dande	Exchange	Agreement signed

Source: AFRODAD, 2007. *A critical assessment of Chinese development assistance in Africa: The Case for Zimbabwe. A study commissioned by the African Forum and Network on Debt and Development*

### 3.2 Loan Agreements

Zimbabwe has benefited from a number of loan agreements extended by the PRC. Assistance has included interest free loans such as for the construction of the Zimbabwe National Sports Stadium in Harare.

More commonly low interest loan agreements with a long maturity have been awarded to Zimbabwe by China's Export and Import Bank (EXIM Bank). As one of China's biggest policy banks, EXIM Bank is active mainly in construction and infrastructure projects across the African continent. Solely owned by the Chinese government, the Bank boasted more than 260 projects across 36 African countries in the last quarter of 2006.

As the sole provider of the Chinese government *concessional loans*, EXIM Bank offers package deals structured specifically to address the needs of African governments. Its loans across Africa are mainly applied in the sectors of infrastructure development, such as power stations, telecommunications projects, transportation infrastructure, but also mining, manufacturing, housing and health care.

In 2001, China EXIM Bank provided a concessional loan to Zimbabwe's Ministry of Water for infrastructural development. Through this loan the District Development Fund (DDF) acquired equipment worth US\$ 8 million for the development, maintenance and upgrading of road infrastructure.

Similarly in 2006, the Zimbabwe Farmers Development Company benefited from an EXIM Bank concessional loan to obtain agricultural equipment and tools worth US\$ 25 million.<sup>25</sup>

EXIM Bank also extends *export credits* used to facilitate the export of Chinese capital goods (mainly mechanic and electronic products) and high and new-tech products to overseas construction and investment projects. Although these cannot be regarded as development assistance *per se*, the Government of Zimbabwe has been awarded with a Buyer's Credit loan facility by EXIM Bank in August 2006, valued at US\$ 200 million to purchase necessary inputs into the country's agriculture sector. These include fertilizers, pesticides, agricultural tools and equipment, as well as irrigation equipment which Harare has been unable to purchase due to the shortage of foreign currency.

The necessary equipment and agricultural inputs are expected to increase productivity and capacity utilisation in the agricultural sector. In July 2007 at the opening of the 3<sup>rd</sup> session of the Sixth Parliament of Zimbabwe, President Mugabe suggested that the buyer's credit loan agreement has helped in improving stability in the supply of agricultural inputs such as fertilizers and chemicals<sup>26</sup>.

Besides assistance in agriculture, the manufacturing sector has also benefited from a credit loan facility. Buyer's credits worth US\$ 17.9 million were extended to the Industrial Development Commission in 1997 and similarly, ZISCO (Zimbabwe Iron and Steel Company) was also provided with a credit loan worth US\$ 20 million.

The terms and conditions of China's interest free and concessional loans are rarely made public and it is therefore difficult to distinguish between these and commercial loans. In the case of Zimbabwe the differences are further confused by the regular use of barter trade discussed below in the trade section. Harare's total indebtedness to Beijing, according to the Zimbabwean Ministry of Finance, is summarized in the table below.

**Table 4: Zimbabwe's indebtedness to China**

Creditor	Date signed	Beneficiary	Purpose/Project	Total arrears (US\$)
China Government	12 Sept 1980	Ministry of Sports	Construction of the National Sports Stadium Phase I	1,496,853.64
China Government	11 Jan 1983	Ministry of Sports	Construction of the National Sports Stadium Phase II	52,821,313.05
China Government	28 Aug 1985	Multiple	Construction of Valley Dam	84,055,310.63
China Government	22 July 1985	Defense	Defence 2	4,873,862.01
China Government	28 Aug 1985		Others	5,174,500.49
China Government	22 Dec 1986	Defense	Defence 3	6,126,568.74
China Government	20 Jan 1987	Multiple	Various Projects	5,556,083.49
China Exim Bank	8 May 1997	IDC	Sino-Cement Project (1997)	1,371,621.24

<sup>25</sup> AFRODAD, 2007.

<sup>26</sup> Robert G. Mugabe, Opening of 3rd Session of Sixth Parliament of Zimbabwe, Parliament Building, 24 July, 2007 (<http://www.parlzim.gov.zw/newsfull.aspx?nid=4>)

China Exim Bank	30 May 1997	ZISCO	Rebuilding of ZISCO's No.4 Blast Furnace	10,047,189.04
China Exim Bank	30 May 1997	ZISCO	Rebuilding of ZISCO's No.4 Blast Furnace	6,643,868.39
China Exim Bank	19 Jan 2000	IDC	Sino-Cement Project (2000)	-
Catic China	20 Dec 2002	ZIMRA	Supply of electronic container scanners and X-ray	16,242,889.00
Catic China	28 June 2003	ZESA (REA)	Purchase of Rural Electrification Agency Equipment	6,140,140.00
Sinosure China	10 Dec 2003	ZISCO	Insurance paid by Sinosure to Exim Bank	2,682,760.49
China Government	13 Oct 2006		Equipment for the purpose of Training & Demonstration	50,000,000.00
<b>TOTAL</b>				<b>247,676,876.71</b>

Source: Ministry of Finance, Zimbabwe<sup>27</sup>

A Development Cooperation Framework Agreement between the two countries has been put in place under which Zimbabwe has agreed to settle both current and future debts with the PRC by granting the latter mineral concessions and exporting cash crops and mineral resources to the Asian giant. This barter trade system, which China has been applying more frequently across the African continent - also referred to as the "Angolan model" - certainly comes in handy for a country that only has a few days import coverage as a result of a general shortfall of foreign exchange reserves.

While this arrangement currently suits both countries, it places Zimbabwe in a dangerous position by selling forward commodities and cash crops (currently mainly tobacco) that it could possibly fail to produce should the country's situation intensify through disinvestment in key sectors.

Bank-to-bank cooperation in the financial sector further enhances project financing, and the provision of credit lines. This has been the case between China Development Bank (CDB) and Infrastructure Development Bank of Zimbabwe (IDBZ). Furthermore, agreements on a provincial level, such as the Memorandum of Understanding between the Government of Zimbabwe and the Chinese province of Jiangxi signed in October 2006 for the supply of irrigation, tillage, road construction, mechanical and surveying equipment can also be expected<sup>28</sup>.

During a 2005 July state visit to China, Mugabe requested a loan valued at US\$ 1 billion from Beijing, but China committed to a smaller US\$ 3 million instead<sup>29</sup>. In December 2006 reports stated that Zimbabwe was negotiating for a US\$ 2 billion loan from China to stabilize its economy. Yet this was met with skepticism and China's loans to Zimbabwe remain limited.

<sup>27</sup> AFRODAD, 2007.

<sup>28</sup> Ministry of Commerce of the PRC, China provides Zimbabwe with agriculture equipment, 20 October 2006, (<http://english.mofcom.gov.cn/aarticle/subject/focac/lanmub/200611/20061103593654.html>).

<sup>29</sup> Schwersensky, 2006.

#### 4. China's Investment in Zimbabwe

As Zimbabwe's economic situation exacerbates, capital flight has amplified and traditional investors have become increasingly more critical of the political regime and its poor human rights record. In 2004 Zimbabwe was classified as one of the underperformers in terms of FDI potential and performance by UNCTAD. In terms of FDI potential the country was ranked 131<sup>st</sup> out of 141 countries and last for FDI performance<sup>30</sup>.

Chinese investment thus comes in light of much-needed foreign capital inflows. Besides financing a number of development projects and extending assistance in sectors such as infrastructure and agriculture, "China Inc" has a number of commercial projects in the country, attracted through *inter alia* the Zimbabwean government's investor programme, the National Economic Development Programme (NEDPP). Launched in April 2006, NEDPP was created to address the economic challenges which have resulted in acute levels of poverty, migration from Zimbabwe and significant informal sector activity.

Zimbabwe's Ministry of Industry and International Trade has expressed government's intent to customs and immigration formalities to facilitate the flow of Asian (mainly Chinese) capital into a number of key sectors. The Zimbabwe Investment Centre (ZIC) has reported the total value of Chinese projects in the country at US\$ 530-600 million and explained that thirty of these were joint ventures with foreign partners, while five are foreign projects totaling US\$ 2.3 million. China's approved investments for the first half of 2006 amounted to US\$ 8.5 million with a total of 68 projects approved by August 2006<sup>31</sup>. In April 2007 it was reported that 35 Chinese companies are active in the Zimbabwean economy.

A Joint Commission between the two governments which currently meets on a biannual basis has undertaken to further strengthen cooperation such as the promotion of joint venture agreements and heightened FDI inflows across a number of sectors including agriculture, mining, trade & investment, dam construction, ICT & telecommunications, tourism and human resources development.

Chinese investment has reportedly filled gaps which other investors have seen as too high-risk. FDI data from UNCTAD's World Investment Report and the Chinese Statistical Bulletin though show that China's share of total net FDI inflows into Zimbabwe has been small, although increasing. In 2003 China's net FDI to Zimbabwe amounted to US\$ 0.03 million, or 0.8% of total FDI inflows. By 2006 this share increased to almost 9%, with US\$ 3.42 million coming from China.

**Table 5: China's % share of net FDI inflows into Zimbabwe (2003-2006)**

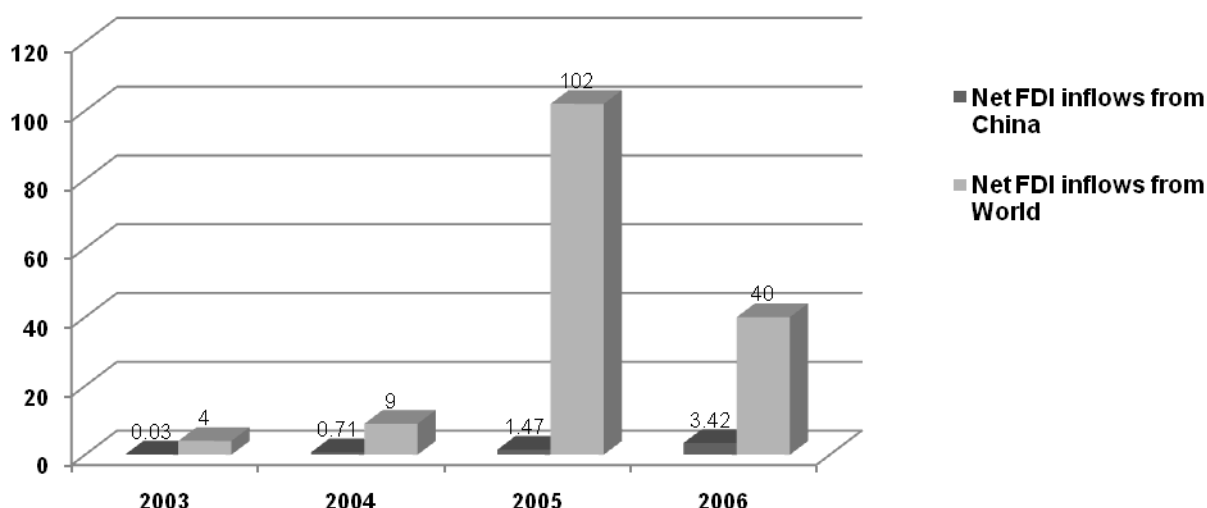
	2003	2004	2005	2006
<b>Net FDI inflows from China</b>	US\$ 0.03 mil	US\$ 0.71 mil	US\$ 1.47 mil	US\$ 3.42 mil
<b>Net FDI inflows from World</b>	US\$ 4 mil	US\$ 9 mil	US\$ 102 mil	US\$ 40 mil
<b>China's % share of FDI</b>	0.8%	7.9%	1.4%	8.6%

Source: UNCTAD World Investment Report 2007; 2006 Statistical Bulletin of China's outward FDI

<sup>30</sup> UNCTAD, 2007. Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries. United Nations

<sup>31</sup> Zimbabwe approves investment projects worth US\$529 million, Xinhua, 25 August 2006, [http://english.peopledaily.com.cn/200608/25/eng20060825\\_296641.html](http://english.peopledaily.com.cn/200608/25/eng20060825_296641.html)

Figure 1: Chinese and world net outward FDI to Zimbabwe, US\$ millions (2003-2006)



Source: UNCTAD World Investment Report 2007; 2006 Statistical Bulletin of China's outward FDI

Beijing's assistance to counter the complete collapse of Zimbabwe's economy, through cash injections and other support, has granted Chinese state-owned enterprises (SOEs) access to a number of projects in Zimbabwe. These include the following:

- In 2003 Shanghai Baosteel Group, China's largest producer of steel and steel products, ranked 5<sup>th</sup> in the world by output in 2006 signaled to invest US\$ 300 million in the metals and mining industry of Zimbabwe, to create 2000 employment opportunities<sup>32</sup>.
- In November 2004, representatives of Huawei accompanied Vice Chairman of the Chinese Communist Party Wu Bangguo on a visit to Zimbabwe and signed two agreements with Zimbabwe's state-owned fixed-line and mobile operators worth a total of almost US\$ 330 million<sup>33</sup>.
- China has also invested in Zimbabwe's railway network. A cooperation agreement was signed in November 2004 between the National Railways of Zimbabwe and China Northern Locomotive and Railing Stock Industry<sup>34</sup>.
- In May 2005 the Government awarded a US\$ 145 million tender for the construction of the Kunzvi Dam to China Jiangxi Corporation for International Economic and Technology Cooperation (CJCIETC) amid allegations that normal tender procedures were not followed. However almost two years on, this investment still has not been finalized, and irregular water supplies are still experienced.

<sup>32</sup> UNCTAD, 2007. Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries. United Nations

<sup>33</sup> Huawei Won Series of Contracts in Africa (<http://www.huawei.com/news/view.do?id=215&cid=42>); Felix Njini, Chinese lift veil on secret deals, Financial Gazette, 18 November 2004.

<sup>34</sup> Xinhua News Agency, Zimbabwe, China Sign Agreement to Strengthen Trade Relations, 21 February, 2004.

- In August 2007 Hwange Colliery announced the conclusion of a coal exploitation contract with an unnamed Chinese company valued at US\$ 40 million. The Zimbabwean coal company has been unable to meet its coal output requirements and in 2006 placed an order worth US\$ 6.2 million of mining equipment from China's Norinco in order to double its output.
- China also invested in land, including some of the largest farms in the Mashonaland region. There are talks that some Chinese SOEs will farm this land.
- China has expressed great interest in Zimbabwe's mining industry, particularly in iron ore, steel, chrome and platinum. As of November 2004 China and Zimbabwe signed a number of cooperation and trade agreements in the mining sector, such as a JV with China North Industries Corporation (Norinco) and an agreement for exploration rights extended to a group of Chinese experts.
- In September 2007 state-owned Sinosteel Corp, China's second largest importer of iron ore acquired a 50% stake in Zimbabwe's largest ferrochrome producer, Zimasco Consolidated Enterprises Ltd., which has been reported to operate at losses. The Zimbabwean Iron & Steel Company's (ZISCO) subsidiary currently exploits iron ore and limestone, which it supplies to ZISCO steel in central Zimbabwe<sup>35</sup>.
- A JV between the Chinese company Winbao Shinex and Zimbabwe Mining Development Corporation was also established to reopen Zimbabwe's copper and gold mines.

The decline of global FDI inflows together with constant power outages has had detrimental effects on Zimbabwe's industrial output, especially the mining sector. Gold output for example has more than halved in the decade to 2006<sup>36</sup>. Chinese investment in mining, the main foreign exchange earning sector contributing around 40% of the country's exports earnings, has been welcomed. Yet, further disruptions in this sector are anticipated, given the recently passed Indigenisation and Economic Empowerment Bill. Mining companies, which currently have a footprint in Zimbabwe, including Implats, Anglo Platinum and Rio Tinto are expected to disinvest, whereas Chinese SOEs with a foothold in key sectors appear prepared to hang on<sup>37</sup>.

Industry and International Trade Minister Obert Mpofu explained that China is entering "almost every sector of the economy and this is mutually beneficial for the two countries"<sup>38</sup>. In most cases, Chinese investment was in the form of joint ventures which the Zimbabwean government prefers because of

<sup>35</sup> Reuters, Zimbabwe ferrochrome company bought by Chinese, 25 September 2007

<sup>36</sup> Reuters, 17 September 2007, Zimbabwe empowerment will hurt investment.

<sup>37</sup> The Indigenisation Bill which used to require foreign-owned mining companies to sell a 30% share to local business within 10 years is expected to further slow foreign investment in the mining sector. The Bill now states that all businesses must have 51% local shareholding, i.e. a majority stake of all businesses must be owned by indigenous Zimbabweans.

<sup>38</sup> Interview: Zimbabwe eager to strengthen economic ties with China, Xinhua, September 2006, ([http://english.peopledaily.com.cn/200609/28/eng20060928\\_307027.html](http://english.peopledaily.com.cn/200609/28/eng20060928_307027.html)).

the increased control it allows and the increased benefits of skill and technology transfers. Investors from the developed countries often insisted on outright ownership<sup>39</sup>.

Mpofu said in view of rising Chinese investment interest in Zimbabwe, the local government was working on measures to ease customs and immigration formalities to facilitate the flow of capital. "We are working on measures to facilitate investment flows into Zimbabwe, especially from China and other developing countries. We are essentially doing away with a lot of the red tape that was in place to give investors convenience and confidence in us," he said<sup>40</sup>.

However even though a number of investment deals between China and Zimbabwe have been announced, which undoubtedly are resource driven, tangible investment is yet to materialise. A number of power generating projects, such as the Kunzvi dam project, have been announced but construction on these projects has not commenced as yet.

Overall, the number of Chinese investors in Zimbabwe is growing. In 2008 China reportedly became Zimbabwe's top investor. As mentioned by John Nkomo, Speaker of Zimbabwe's House of Assembly, Chinese companies seeking investment opportunities are passing through Zimbabwe on exploratory visits<sup>41</sup>. However, the Trade Attaché at the Chinese Embassy Liu Joe recently explained that a number of commercial agreements signed with China have failed because Zimbabwe cannot raise the necessary foreign and the local currency to back the projects. As such, a number of tangible investment projects have not materialised yet.

For example, in May 2005 the Government awarded a US\$ 145 million tender for the construction of the Kunzvi Dam to China Jiangxi Corporation for International Economic and Technology Cooperation (CJCIETC) amid allegations that normal tender procedures were not followed. The local companies which had applied for the tender include former ZANU-PF's parliamentary aspirant Oliver Chidawo's Kuchi Builders, Zhombe MP Daniel Mackenzie-Ncube's Ncube Burrow, Hydro Utilities, Release Power Investment and Inter-consult. The dam is to be built at the confluence of the Nyaguwe and Nora Rivers in Goromonzi district<sup>42</sup>. Once finished, the dam will ease water problems in Harare, Chitungwiza, Ruwa and Norton, and provide irrigation to boost food security in exchange for mineral concessions. However, almost two years on, this investment still has not been finalised and irregular water supplies are still experienced<sup>43</sup>.

As Ian Taylor suggests, Chinese investment has filled the gaps which other investors have seen as too high-risk<sup>44</sup>. Beijing has granted Chinese state-owned enterprises access to a number of projects in Zimbabwe including portfolio shares in some of Zimbabwe's most prized assets. In July 2005

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<sup>39</sup> Interview: Zimbabwe eager to strengthen economic ties with China, Xinhua, September 2006, ([http://english.peopledaily.com.cn/200609/28/eng20060928\\_307027.html](http://english.peopledaily.com.cn/200609/28/eng20060928_307027.html)).

<sup>40</sup> Interview: Zimbabwe eager to strengthen economic ties with China, Xinhua, September 2006, ([http://english.peopledaily.com.cn/200609/28/eng20060928\\_307027.html](http://english.peopledaily.com.cn/200609/28/eng20060928_307027.html)).

<sup>41</sup> Xinhua, China ranks Zimbabwe's top investor: senior official, 24 April 2007.

<sup>42</sup> Grace Kombora and Augustine Mukaro, Chinese Given Kunzvi Dam Tender, Zimbabwe Independent (Harare), 23 September 2005.

<sup>43</sup> Zimbabwe: Chinese Diplomat Reveals Why Local Deals Are Dead in the Water, *Financial Gazette*, Harare, 12 September 2007 (<http://allafrica.com/stories/200709130670.html>).

<sup>44</sup> Taylor, Ian, 2006. *China and Africa. Engagement and Compromise*. Taylor and Francis.



President Hu met his counterpart in Zimbabwe to sign three agreements, of which one was between China National Aero Technology Import and Export Corp. (CATIC) and Zimbabwe's Ministry of Communication who signed a Memorandum of Agreement on the loan financing of the Hwange Power Station<sup>45</sup>.

Chinese investment in Zimbabwe's deteriorating economy might appear surprising, given the capital flight of other traditional investors. Spurred by good relations between the two governments the Chinese government has the capacity to instruct SOEs to invest in Zimbabwe. SOEs are able to take on the high risk environment as, should the situation worsen, they rely on Beijing's reserves to bail them out. Losses are absorbed by state coffers.

## 5. The Sino-Zimbabwean Trading Relationship

Bilateral trade between China and Zimbabwe has increased over the last decade. China is now Zimbabwe's second largest trading partner after South Africa<sup>46</sup>. Even though the Zimbabwean dollar has undergone a number of official devaluations since 2000, the strengthening trade relationship is significant. The purpose of this section is to review the main commodity exports from Zimbabwe to China and correspondingly the main imports that Zimbabwe is obtaining from China.

The data used for this analysis is sourced from the World Trade Atlas (WTA, Dr John Brasher)<sup>47</sup>. The Chinese-Zimbabwe trade data is obtained by the WTA from the Chinese Ministry of Commerce (MOFCOM). As import data is generally more reliable than export data, it has been used where possible. The flagging state of the Zimbabwean economy and sensitivities concerning the publication of reliable and accurate data should be noted. Zimbabwe's exports and imports are analyzed in this paper using Chinese trade data as the authors see this to be more reliable.

China's trading relationship with Zimbabwe has been underwritten by the country's appetite for mineral investments and raw materials. In early 2004, the trade between the two countries was further deepened by the signing of an economic and technical agreement. Part of the agreement was to help Zimbabwe boost production of one of its key exports - tobacco<sup>48</sup>. Rich in a variety of natural resources and substantial mineral deposits, including platinum<sup>49</sup>, ferrochrome, coal, copper, diamonds, emeralds, gold and silver, Zimbabwe offers significant investment opportunities in the mining sector as well as some cash crops. China's appetite for natural resources to support fast-paced urbanization and development back home has spurred Chinese investment in these mineral resources across Africa, in light of rising world commodity prices.

Zimbabwe's general Balance of Payments situation has been deteriorating since 2000, recording a trade deficit and widening current account deficit over the last few years. This was fueled by the rising

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<sup>45</sup> China Daily: Mugabe Meets Hu, Agreements signed, 2005.

<sup>46</sup> Brian Smith, 2006. Western concern at China's growing involvement in Africa, World Socialist Web Site, 10 April, (<http://www.wsws.org/articles/2006/apr2006/afri-a10.shtml>).

<sup>47</sup> A commercial operation that collects trade data globally and provides it to users in a very timely and user-friendly manner.

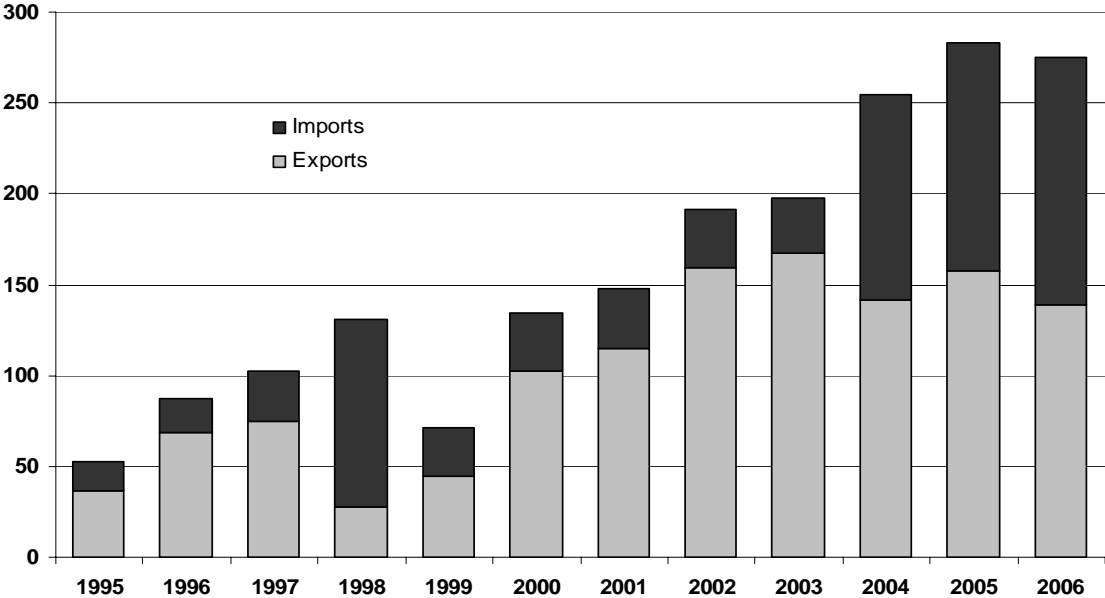
<sup>48</sup> Xinhua News Agency: Zimbabwe, China Sign Agreement to Strengthen Trade Relations, 21 February 2004

<sup>49</sup> It is reported that Zimbabwe has the second largest platinum reserve in the world, valued at US\$ 500 million. But this deposit is largely untapped (Eisenman, 2005).

imports of emergency aid, and the non-performing export sector. The decline of mainly cash crops and mineral output has resulted in foreign exchange shortages. The slump in exports and the corresponding lack of foreign exchange to purchase raw material inputs and necessary equipment for mainly agriculture, agro-processing and the manufacturing sector, is also partially explained by irregular electricity production. This has slowed a previously very sophisticated manufacturing industry. Such operations currently only utilize about 20-30% of their actual capacity<sup>50</sup>.

As seen in Figure 1 Zimbabwe’s trading relationship with China has increased since the mid-1990s. According to data collected by the Chinese Ministry of Commerce (MOFCOM) bilateral trade by the end of 2006 stood at US\$ 275.25 million, up from US\$ 52.2 million in 1996; peaking at US\$ 283.30 million in 2005. Recently-released data for the period January-June of 2007 values bilateral trade at US\$ 205.70 million.

**Figure 2: Zimbabwe’s exports to and imports from China, in US\$ millions (1995-2006)**



Source: World Trade Atlas

Bilateral trade between the two nations, much like the trading relationship of China with other African countries, is characterized by the export of low value-added raw materials in return for manufactured goods (including clothing, textiles and footwear), transport (automobiles, busses, tractors and aircraft vehicles), electrical machinery and other equipment. Yet, contrary to many countries’ trade profiles with China, two-way trade has been skewed in favour of Zimbabwe, which is unusual for an African non-oil exporting country.

Since 1995 Zimbabwe’s imports from China as a share of total trade between the two countries averaged around 20-25%, with the exception of 1998, when trade was largely in China’s favour. That year Zimbabwe recorded imports to the value of US\$ 102.91 million, versus exports of only US\$ 27.87 million. This large trade deficit occurred mainly as Zimbabwe purchased a large amount of military equipment, including aircrafts valued at US\$ 45 million, as well as construction materials and

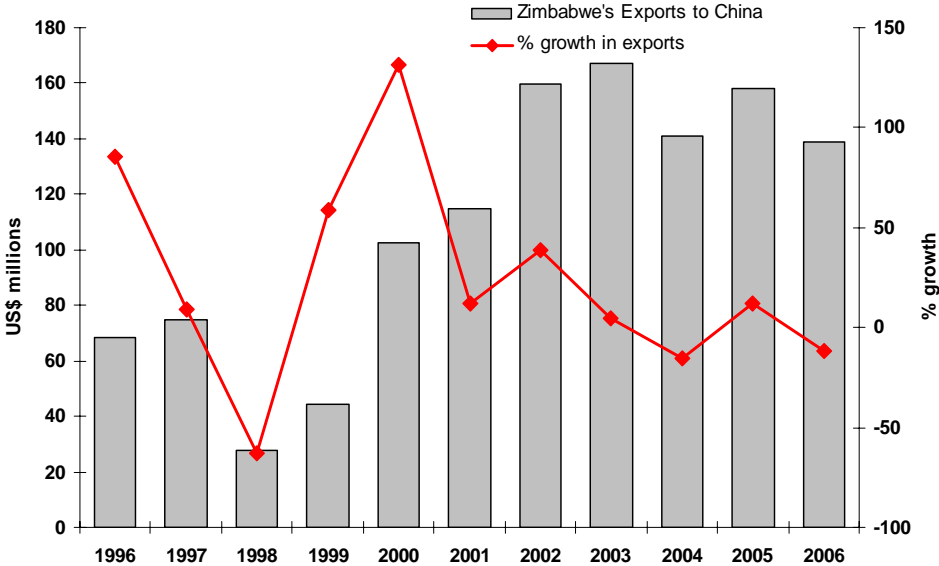
<sup>50</sup> Mhango (2007)

machinery from the PRC. But as of 2004, imports as a share of total bilateral trade increased to average more than 40%. The large surplus with China in Zimbabwe's current account is underwritten by a single export – tobacco. This cash crop has been one of Zimbabwe's most important industries, especially for earning foreign exchange. But tobacco exports, like tobacco production, have been decreasing.

**5.1 Zimbabwe's Exports to China**

China's total imports from the world amounted to US\$ 660.2 billion in 2005 and grew a further 20% to reach US\$ 791.8 billion in 2006. Africa's exports to China in 2006 were valued at US\$ 28.8 billion in 2006, up 36% from the year before. This means that China's imports from Africa only make up 4.36% of total imports from the world. Zimbabwe's exports to the PRC were only a small share of this, dominated by cash crops (tobacco, cotton) and minerals (nickel, ferroalloys, etc.) down 12% from US\$ 157.92 million in 2005 to US\$ 138.95 million in 2006.

**Figure 3: Total value of Zimbabwe's exports to China and growth rate of exports to China, millions of US\$ and %**



Source: World Trade Atlas

This decline comes in light of Zimbabwe's further economic deterioration and lower agricultural production, driven by a fall in the main export from Zimbabwe to China - tobacco (HS 2401). The unfavourable exchange rate and higher input and production costs have made tobacco production less attractive. Yet, tobacco remains the largest Zimbabwean export to China in 2006, making up 68.7% of exports to China in that year. In 2005 this share was 81.2%. China, as the largest single buyer of Zimbabwe's tobacco, already in 1990 placed orders worth US\$ 34 million<sup>51</sup> and tobacco exports to China previously peaked in 2003 at US\$ 167.08 million.

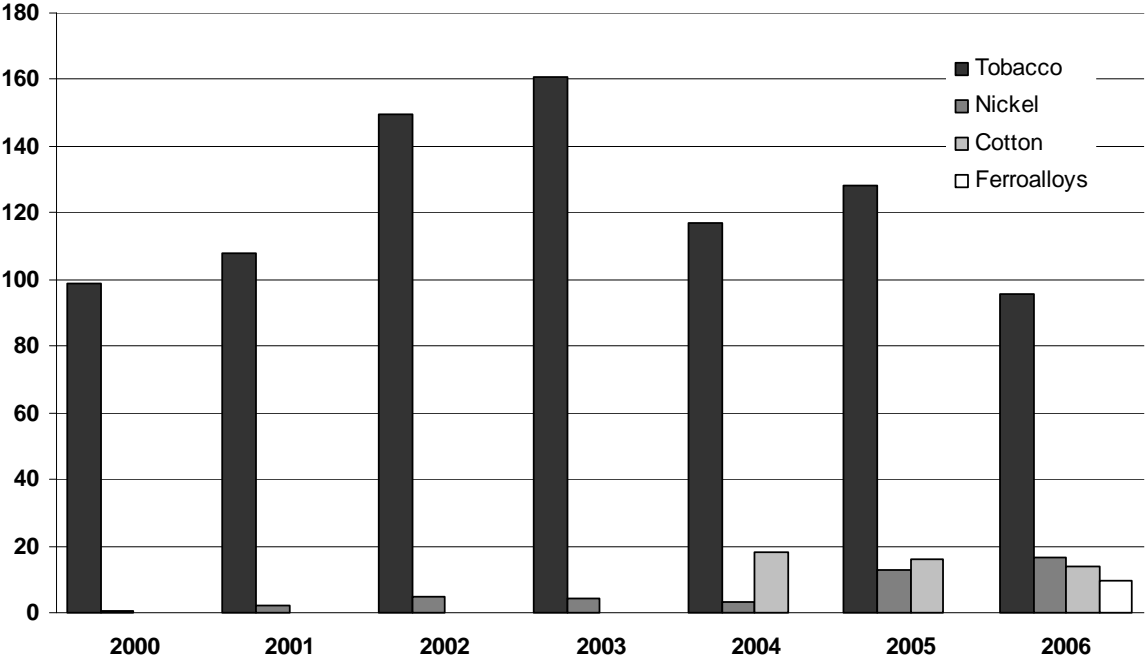
Tobacco production and exports have slowed since as agricultural inputs have become more expensive. Current exports are estimated at about 13 200 tons. Formerly one of Africa's top producers

<sup>51</sup> See Taylor (2006).

of flue-cured tobacco, Zimbabwe's total tobacco production has declined to 58 million kg in 2006, down from 200 million kg in 2001<sup>52</sup>. Yet this production is expected to increase over the medium term. Earlier this year, China extended a US\$ 58 credit line to Zimbabwe, which will be repaid in tobacco over two years. This credit facility will serve to boost production in the agricultural sector for Zimbabwe to purchase agricultural inputs and equipment<sup>53</sup>.

The second largest export to China at US\$ 16.72 million in 2006 was nickel (HS 7502) constituting 12% of total exports to China. In 2006, nickel exports were up 31.24% year-on-year, the highest ever. Both these exports were ranked top in Zimbabwe's trade account with China as these were repayment of the loan that was received by China's National Aero Technology Import and Export Corporation (CATIC).

**Figure 4: Zimbabwe's top four exports to China, US\$ millions (2000-2006)**



Source: World Trade Atlas

Next were cotton (HS 5201) exports at US\$ 13.93 million, making up 10.1% of the export value to China in 2006. Cotton exports have been declining as of 2004, when they stood at US\$ 18.1 million. The fourth and last of the most substantial of Zimbabwe's exports to China were ferroalloys (HS 7202), which include mainly alloys of iron, a major input for the production of stainless steel in China. Prior to 2006 no export of this was recorded. In 2006, ferroalloy exports stood at US\$ 9.4 million, comprising 6.7% of Zimbabwe's exports to China.

As displayed in Figure 3, Zimbabwe's top export to China has been tobacco, with smaller exports emerging since 2004. These include raw materials such as nickel, cotton and later ferroalloys. Zimbabwe's top four exports in 2006 constituted 97.5% of all exports to China. This is in comparison

<sup>52</sup> Mhango, Yvonne, 2007. Zimbabwe: Mid-year gauge - Political reform a prerequisite for economic recovery. Standard Bank Research Economics. July

<sup>53</sup> Ethical Cooperation: Chinese companies in Africa – African stakeholders bite back, June 5<sup>th</sup>

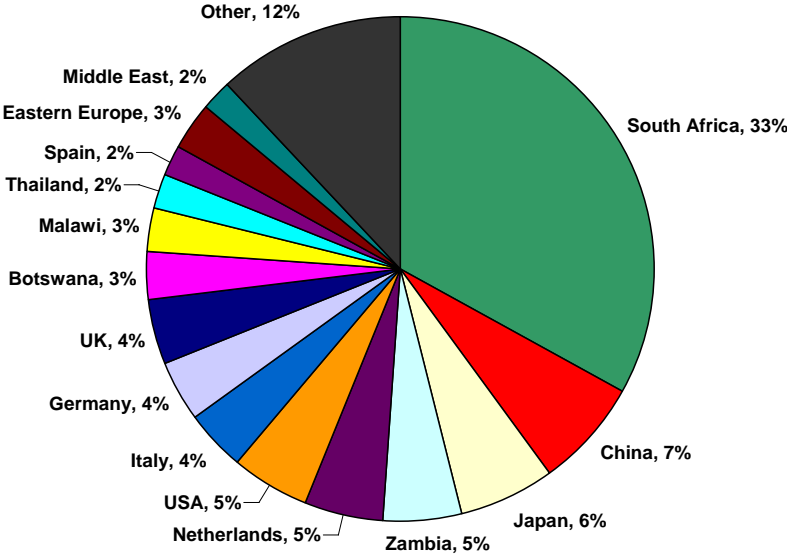


to 2005, when the top three exports (tobacco, nickel and cotton) constituted 99% of all exports to China.

On the back of mounting Chinese demand for mineral and other resources commodity prices have skyrocketed, creating new opportunities for resource-rich and dependent African countries in world markets. As such, directly the relationship has been beneficial to Zimbabwe, as China does not only buy products of its key sectors, mining and agriculture, but indirect benefits have also been experienced by Zimbabwe due to this support. China’s extension of credit facilities for agricultural inputs, and its investment in the mining sector have created great potential for Zimbabwe in terms of economic development. Whereas the overall economic outlook of the nation has been unfavourable, the assistance of China in these key sectors through FDI and aid flows, will facilitate the provision of employment and the improvement of the livelihoods of people.

As such if inputs such as equipment and skill transfers are injected into these sectors effectively, industry will have the opportunity to build up capacity levels to previous output levels, to not only facilitate exports to China but also to third markets.

**Figure 5: Destination of Zimbabwe’s Exports (2005)**



Source: IMF statistics in Mhango (2007)

South Africa continues to be Zimbabwe’s largest trading partner, receiving more than a third of Zimbabwe’s exports in 2005, and China has become the second largest trading partner. In 2005 IMF statistics reported that 7% of Zimbabwe’s exports were destined for China, with Japan in third place at 6%, followed by Zambia, the Netherlands and the US, each receiving 5% of Zimbabwe’s total exports.

**Table 6: China’s share of Zimbabwe's exports (1998-2006)**

	Total Exports (US\$ million)	Exports to China (US\$ million)	China’s share (%)
1998	1925	16.9	0.9

<b>1999</b>	1933.9	103.3	<b>5.3</b>
<b>2000</b>	2202.9	94.3	<b>4.3</b>
<b>2001</b>	2113.7	104.8	<b>5.0</b>
<b>2002</b>	1802.3	29.4	<b>1.6</b>
<b>2003</b>	1669.9	40.4	<b>2.4</b>
<b>2004</b>	1684.2	82.7	<b>4.9</b>
<b>2005</b>	1774.5	89.8	<b>5.1</b>
<b>2006</b>	1723.3	55.2	<b>3.2</b>

Source: Reserve Bank of Zimbabwe

Table 2 confirms that China's share of Zimbabwean exports has been small. The share of total exports destined for the PRC peaked at 5.3% in 1999 and 5.1% in 2005 according to the Reserve Bank of Zimbabwe.

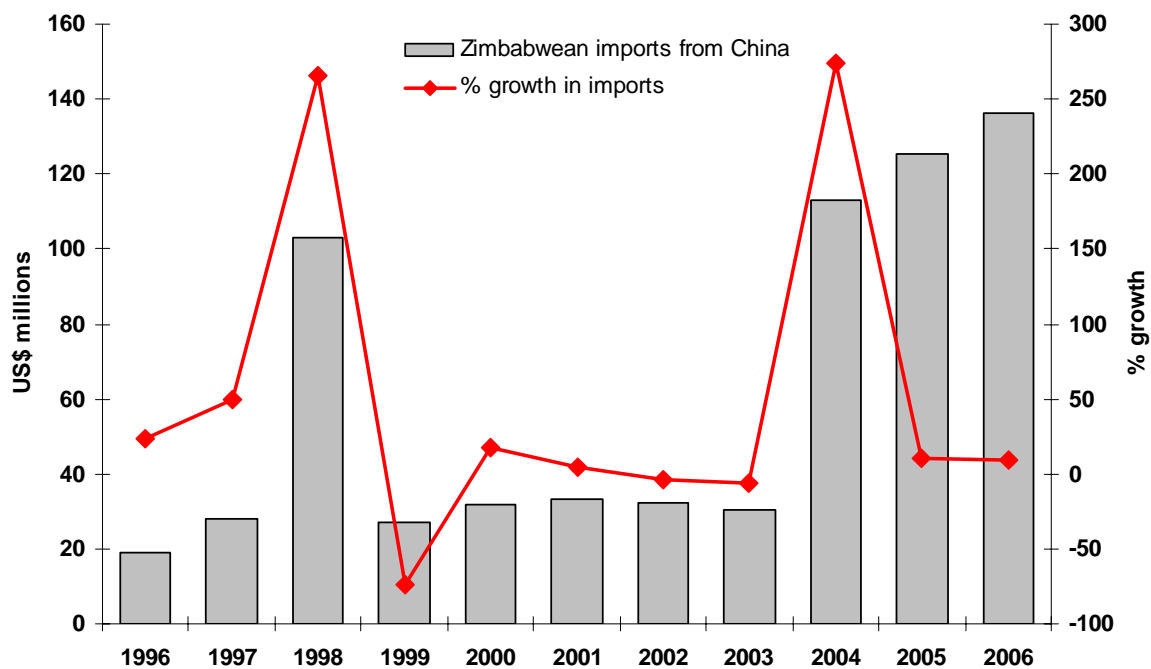
Possible future exports include manufactured timber such as wooden doors to China. Currently, exports of this to markets like the United States have slowed, due to *inter alia* China's competition in these markets<sup>54</sup>.

## 5.2 Zimbabwe's Imports from China

While Chinese exports to the world during 2006 were up 27.15% to US\$ 969 billion, and Chinese exports to Africa up 43% from US\$ 18.7 billion to US\$ 26.7 billion, Chinese exports to Zimbabwe increased by a meager 8.71% from US\$ 125 million in 2005 to US\$ 136.3 million. Yet, Zimbabwe as an export destination for Chinese goods in Africa moved down from 24<sup>th</sup> to 28<sup>th</sup> place, as exports from China to other African countries augmented. Imports from China were generally moderate and tripled in 1997 and then again in 2004 from previous import levels. This comes as a result of a number of loans extended to Zimbabwe from China to purchase agricultural equipment and military supplies.

<sup>54</sup> Financial Gazette: Zimbabwe: Border Timbers Secures New Export Markets, 29 August 2007

Figure 6: Zimbabwe's imports from China and % growth of imports, millions of US\$ and %



Source: World Trade Atlas

The category “aircraft, powered; spacecraft & launch vehicles” (HS 8802) halved in value from 2005 to 2006, falling to second place in 2006, at US\$ 12.5 million. In 2005 Zimbabwe purchased a number of planes, trainer jets and commuter busses from China as a result of a military trade deal, signed in 2004, worth US\$ 240 million. This was one of six economic and technical cooperation and trade agreements signed in November 2004 during the visit of China’s top legislator, Wu Bangguo<sup>55</sup>. Such purchases decreased in 2006, with reports stating that Zimbabwe bought another six fighter jets from China that year<sup>56</sup>.

It is said that the Asian country, in return for market access, sold guns, fighter aircrafts and military vehicles to Zimbabwe. But China was also said to sell trains and assist Zimbabwe in building its rail network in 2007. This was reported in September 2007 in the state publication “*The Herald*”. According to this article 12,000 tons of rail had been received from China to refurbish its deteriorating rail system<sup>57</sup>. But in 2006 China’s main export to Zimbabwe was in “commodities not elsewhere specified”. This includes exports of repaired imports and imports of repaired exports and amounted to a whopping US\$ 41.93 million, up 264 percent from 2005.

The next line of major imports in 2006 included two groups of electronic equipment. As such, the third largest import from China in 2006 at US\$ 11.34 million was transmission apparatus for radiotelephony, TV cameras and cordless phones (HS 8525). This increased marginally from US\$ 11.23 in 2005. Next was electrical apparatus for line telephony and telephones, etc. (HS 8517) at US\$ 7.5 million, up from US\$ 1.53 million in 2005. Chemical products including insecticides, rodenticides, fungicides (HS 3808)

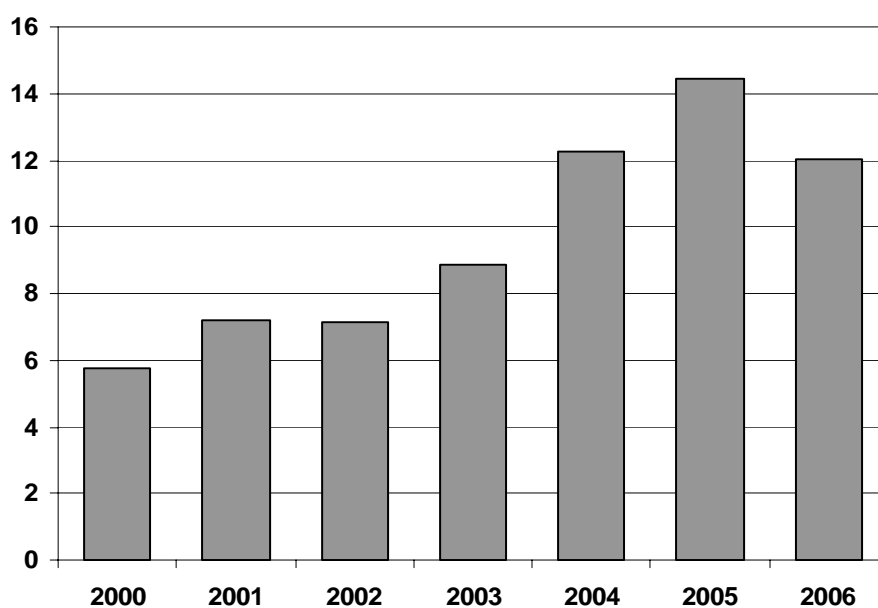
<sup>55</sup> Xinhua News Agency: China, Zimbabwe sign agreements, contracts, 4 October 2007

<sup>56</sup> About: World News: Zimbabwe’s “Look East” Policy, 25 August 2006

<sup>57</sup> The Herald: Zimbabwe; NRZ Diversifies Into Manufacturing, 19 September 2007

were up more than 2000% reaching US\$ 7.3 million in 2006 and thus being the fifth largest import from China.

**Figure 7: Zimbabwe's clothing, textiles & footwear imports from China, US\$ millions (2000-2006)**



Source: *World Trade Atlas*

Another significant import in 2006 was that of woven fabrics (HS 5407) which amounted to US\$ 5.27 million, down marginally from US\$ 5.34 million in 2005. Overall clothing, textiles and footwear imports since 2000 have more than doubled. A total of US\$ 12.04 million worth of clothing, textile and footwear merchandise was imported from China in 2006 (Figure 6), but it is expected that this underestimates the actual amount of Chinese exports to Zimbabwe in this industry, as a lot of black market trade occurs.

Zimbabwe's import profile with China reveals that Beijing's interest in Harare is not limited to resources, but that it also sees Zimbabwe as a potential market for its manufactured and industrial goods. Cheap manufactured products such as textiles and clothing, together with cheap Chinese TVs and other electrical appliances from China have penetrated the local market and in return received a lot of criticism from both consumers and competing industries in Zimbabwe.

Such goods, referred to by locals as "zhing zhongs", are considered to be of lower quality and are generally sub-standard products not acceptable in Western markets<sup>58</sup>. This merchandise found a gap in the market, now displacing Zimbabwean manufactured goods. Yet one should not consider the main constraints to industrial development in Zimbabwe as the competition from the East. Rather, the economic and industrial crisis is fuelled by a number of reasons mainly by the necessary demand but constrained by political embargos.

<sup>58</sup> Sokwanele Special Report, 21 June 2007

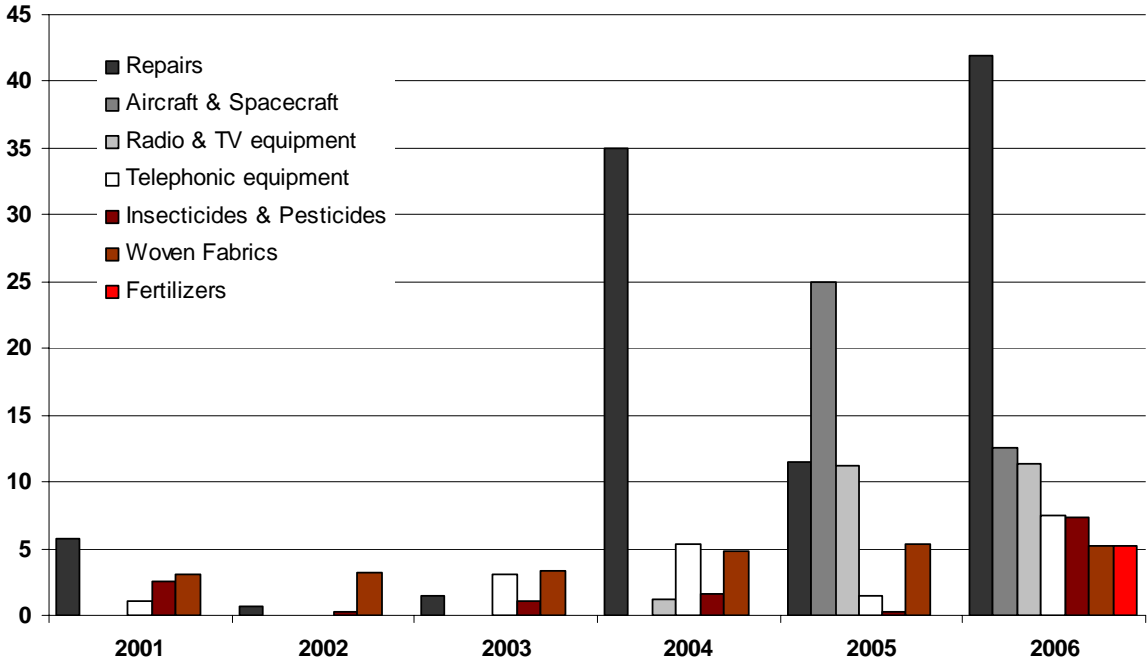


Not surprisingly, Zimbabwe used to pride itself with an active manufacturing sector, contributing a significant share to GDP and supplying manufactured goods to its sub-Saharan neighbours. But, with the political and economic crisis this sector has deteriorated, especially in 2004 and 2005, when more than half of the industry’s workforce was lost. Industry collapse was spurred by a shortage of inputs, raw material imports and a lack of foreign exchange. Chinese competition has further undercut these industries, most significantly in the clothing and footwear industries, spurring unemployment and poverty. An increasing number of small Chinese traders are also said to be infiltrating the trading community since implementation of the “Look East” policy<sup>59</sup>.

Zimbabwe’s Minister of Women’s Affairs, Gender and Community Development, Oppah Muchinguri, in September 2007 voiced her opinion on cheap Chinese products in the Zimbabwean market. She blamed the education system and the lack of entrepreneurship in the economy, which has created a space for Chinese traders to bring their merchandise to the troubled economy<sup>60</sup>.

Fertilisers (HS 3105) constituted the 7<sup>th</sup> largest import from the PRC in 2006 at US\$ 5.26 million. The current fertiliser shortage is estimated at about 800,000 tons for the 2007/2008 farming season in Zimbabwe. China National Machinery and Equipment Import and Export Corporation in September 2007 committed to finance US\$ 4.5 million in fertilisers. The 10,000 tons of ammonium will be supplied by South Africa’s Sasol<sup>61</sup>.

**Figure 8: Zimbabwe’s top seven imports from China, US\$ millions (2000-2006)**

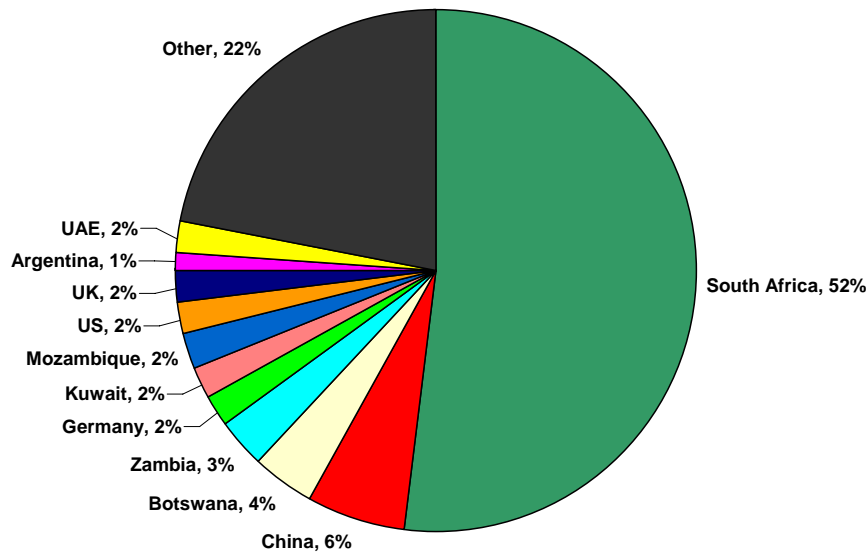


Source: World Trade Atlas

Together these top seven product categories (Figure 8) represent 66.8% of Zimbabwe's imports from China.

<sup>59</sup> The Zimbabwean: China allegedly dumping junk in Zimbabwe, 27 September 2007  
<sup>60</sup> The Zimbabwean: China allegedly dumping junk in Zimbabwe, 27 September 2007  
<sup>61</sup> The Herald: Zimbabwe: Chinese Firm Gives Zim US\$ 4,5m for Fertilizer, 26 September 2007

**Figure 9: Origin of Zimbabwean imports (2005)**



Source: IMF statistics in Mhango (2007)

A lot of assistance from China has been through machinery, transport and electrical equipment, as displayed in Zimbabwe's imports from China and agricultural inputs including fertilisers, insecticides and pesticides as well as agricultural machinery and equipment, making China Zimbabwe's second largest origin of imports after South Africa.

**Table 7: China's share in Zimbabwe's imports (1998-2006)**

	Total Imports (US\$ million)	Imports from China (US\$ million)	China's share (%)
1998	2020.2	52.3	2.6
1999	1675.2	39.8	2.4
2000	1907.3	32.8	1.7
2001	1791.2	20.5	1.1
2002	1820.5	24.5	1.3
2003	1778.2	25.9	1.5
2004	1989.4	55.3	2.8
2005	2201.8	61.7	2.8
2006	1965.7	212.6	10.8

Source: Reserve Bank of Zimbabwe

Figures from Zimbabwe's Reserve Bank display that China's share of Zimbabwe's imports has been less than 3% between 1998 and 2005. In 2006, however, this share increased to 10.8%, as illustrated in Table 3<sup>62</sup>.

Overall, a great share of Sino-Zimbabwean trade has been spurred through loans and credits extended from Beijing to the African nation. Such loan agreements and credit lines are meant to assist Zimbabwe, making available foreign exchange to purchase necessary machinery, equipment and raw

<sup>62</sup> Both Table 2 and 3 reflect the difference in Chinese and Zimbabwean sources of data.

material inputs for Zimbabwe's main economic sector, agriculture, but also to create capacity for much-needed electricity generation. As such, loans extended to Zimbabwe are used to purchase essential goods and inputs from China, spurring imports from China to Zimbabwe. For example, in June 2005, China signed a US\$ 1.3 billion deal with Mugabe to rehabilitate the national power grid in return for preferential access to Zimbabwe's world-class chrome resources over a number of years<sup>63</sup>.

### **5.3 Barter Trade**

The Chinese Government has repeatedly expressed a desire for barter in trade and investment arrangements in Africa modeled on relations with Luanda and increasingly known as the "Angola Model". In the absence of foreign exchange reserves, Zimbabwe is at a serious disadvantage in international trade.

China's willingness to enter into barter trade agreements provides Harare with an attractive alternative. While the details of these transactions remain obscure a considerable quantity of Zimbabwe's exports to China are used to repay loans provided as part of the barter trade agreement. One of the largest deals of this nature was the US\$ 58 million for agricultural equipment in exchange for tobacco. Such arrangements require a high degree of trust and signify a certain investment in Zimbabwe's stability.

## **6. Impact on key stakeholders**

Although China's relationship with Zimbabwe has magnified, economic benefits to different stakeholders, mainly the Zimbabwean private sector, have been limited. For Zimbabwe's Government, China provides some degree of leverage. While China's engagement with Zimbabwe is perceived in a negative light by local and international opponents to Mugabe's Government, neighbouring governments generally take a positive view of the relationship and are grateful to China for supporting the African state and promoting regional stability. Government Ministries have further benefited from the equipment and training programmes extended from China. Benefits have also been reaped by individual scholarship recipients awarded Chinese scholarships to study at various pronounced universities in China.

Opportunities for the private sector, given China's rapid inroads into Zimbabwe, have been limited. A number of private Zimbabwean companies view the presence of Chinese entrepreneurs and the influx of cheap Chinese goods as stifling their own business opportunities. Small Chinese companies and shops establishing a footprint in Zimbabwe, selling cheap and low quality goods, are seen as a threat to infant industries. While the importation of Chinese consumer goods has had a negative impact on local industry, Zimbabwe's manufacturing sector faces enormous challenges and is currently operating at a fraction of its capacity as a result of the country's desperate economic situation including rising production costs, foreign currency constraints and electricity supply interruptions.

Skills and technology transfers from Chinese-Zimbabwean joint ventures have also been limited. While a number of Chinese companies in Zimbabwe are engaged in training local workers, it is believed that this has only taken place on a limited basis and that technology transfer to date has been

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<sup>63</sup> Ethical Corporation: Chinese companies in Africa – African stakeholders bite back, 5 June 2007

negligible. Concern in Zimbabwe's private sector has also been raised over the number of tenders for large infrastructure and construction projects extended to Chinese companies, and the lack of tenders and thus economic benefits, awarded to the local private sector.

Noteworthy impacts of China's development assistance to Zimbabwe are yet to be felt. Assistance in the agriculture sector has not yet significantly improved the situation regarding self-sustainable food production. Zimbabwe has been unable to meet its food requirements. Crowding out of local private producers of goods and services has also been raised as a concern given that development assistance from China in the form of concessional loans and lines of credit is usually coupled to the provision that at least 50% of procurements come from China<sup>64</sup>.

## 7. Conclusion

Western media coverage of both China and Zimbabwe is heavily biased and increasingly unreliable. While Beijing is increasingly sensitive to international perceptions, the majority of Africans view China positively. It should be noted that despite his shortcomings, President Robert Mugabe is commonly perceived as a hero across much of Africa as one of the few leaders willing to stand up and criticise major Western powers.

China is encountering mounting international criticism over its relations with Zimbabwe and it has been suggested by several observers that the fact that Chinese President Hu Jintao did not visit Zimbabwe during his Southern Africa tour at the beginning 2007 was a sign to Harare that things might be changing. Beijing continues to have very close relations with Harare and these are completely in line with Beijing's adherence to non-interference in the domestic affairs of other states. China's political engagement remains relatively even across Africa; while its economic engagement varies depending on nature of economic opportunities presented.

While Zimbabwe's population of 12.5 million may not represent a very important market for Chinese products, the country is rich in resources and is believed to have the second-largest deposits of platinum in the world and deposits of more than 40 other minerals, including ferrochrome, uranium, gold, silver, and copper. China clearly attaches great importance to its relations with Zimbabwe and has invested a considerable amount to ensure that the country does not collapse.

Accurate data and objective analysis on trade and investment relations between the two countries is scarce. China's engagement with this African country is increasing and with the general rise in south-south relations, the creative use of barter agreements is clearly worthy of further investigation.

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<sup>64</sup> AFRODAD, 2007. A critical assessment of Chinese development assistance in Africa: The Case for Zimbabwe. A study commissioned by the African Forum and Network on Debt and Development